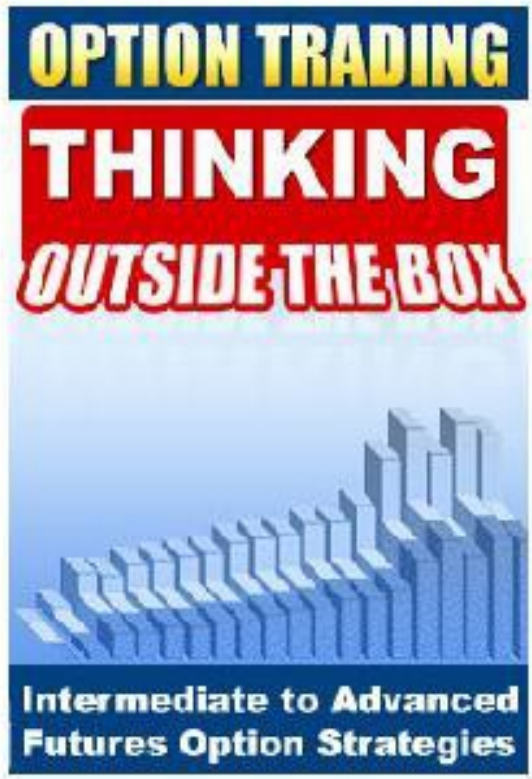
VISIT…

Option Trading – Thinking Outside The Box

Intermediate to Advanced Futures Option Strategies



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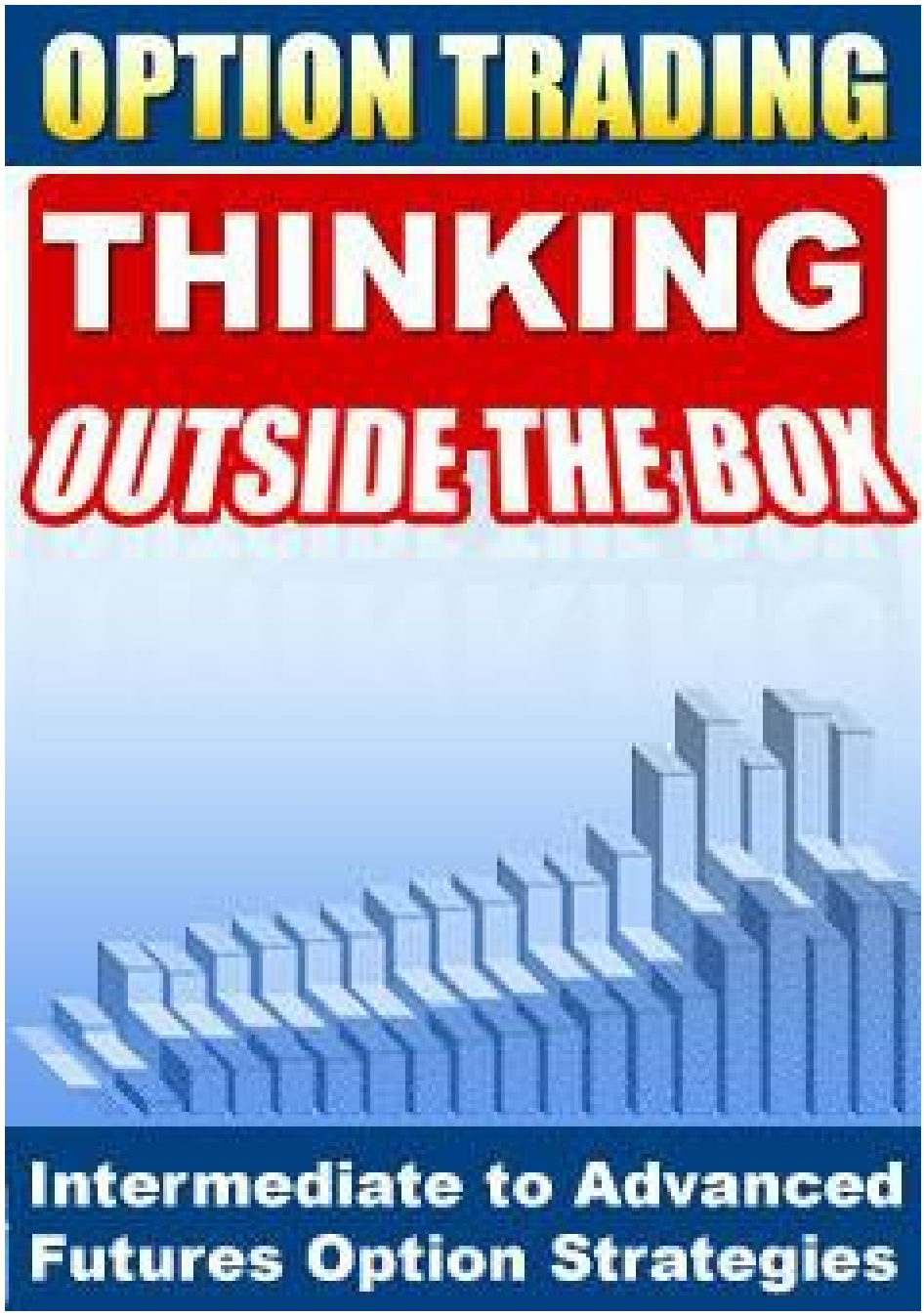
Trade options like a pro, using Delta Neutral, Calendar Spreads, Option Scale Trading and other Option Secrets. Click below to learn about the best non-directional and directional option techniques.

Option Trading – Thinking Outside The Box

Intermediate to Advanced Futures Option Strategies



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Futures Options Secrets

Risk Disclosure Statement

The risk of loss in trading commodity futures and options can be substantial.

Before trading, one should carefully consider their financial position to determine if futures trading is appropriate. One should realize that when trading futures and/or granting/writing options one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading futures and/or granting/writing options. All funds committed should be purely risk capital.

Past performance is not indicative of future results. David Rivera and deltaneutraltrading.com do not intend to give investment advice. The contents of this book are for informational purposes only.

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Back to Basics

Although the bulk of this book is intended for those with knowledge of futures options trading, I will go over some basic terminology.

Strike price

In options, the strike price is the pre-determined price at which the option may be exercised. Strike price is also known as the exercise price. Strike is the price at which an option begins to have a settlement value at expiration. The strike price is set at the time the option contract originates.

An option is "in-the-money" when the current market price of the underlying futures contract exceeds the strike price of a call or is below the strike price of a put. Similarly, an option is "out-of-the-money" when the current market price of the underlying futures contract exceeds the strike price of a put or is below the strike price of a call.

DECEMBER 05 WHEAT - CBOT OPTIONS

10/28/05 days to exp: 28 int. rate: 3.91% calc. imp vol of *: 20.14%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
W Z05	317-6							
1000-0C	217-6s	200.00	0.04	0.0005	1-3	0-1	217-6	
700-0C	0-1s	104.10	0.00	0.0001	0-1	0-0	0-1	+83.96
500-0C	0-1s	64.45	0.01	0.0003	0-1	0-0	0-1	+44.31
480-0C	0-1s	59.38	0.01	0.0004	0-1	0-0	0-1	+39.24
460-0C	0-1s	54.10	0.01	0.0005	0-1	0-0	0-1	+33.96
440-0C	0-1s	48.44	0.01	0.0006	0-1	0-0	0-1	+28.30
430-0C	0-1s	45.46	0.01	0.0006	0-1	0-0	0-1	+25.32
420-0C	0-1s	42.38	0.01	0.0007	0-1	0-0	0-1	+22.24
410-0C	0-1s	39.26	0.01	0.0008	0-1	0-0	0-1	+19.12
400-0C	0-1s	35.94	0.01	0.0010	0-1	0-0	0-1	+15.80
390-0C	0-1s	32.52	0.01	0.0012	0-1	0-0	0-1	+12.38
380-0C	0-1s	29.00	0.01	0.0014	0-1	0-0	0-1	+8.87
370-0C	0-1s	25.24	0.02	0.0018	0-1	0-0	0-1	+5.11
360-0C	0-2s	23.80	0.03	0.0034	0-1	0-1	0-2	+3.67
350-0C	0-5s	23.24	0.07	0.0066	0-3	0-1	0-5	+3.10
340-0C	1-4s	22.80	0.15	0.0115	0-5	0-2	1-4	+2.66
330-0C	2-7s	20.86	0.26	0.0178	0-6	0-2	2-7	+0.72
325-0C	4-2s	20.63	0.36	0.0205	0-7	0-3	4-2	+0.49
320-0C	6-0s	20.12*	0.46	0.0224	0-7	0-3	6-0	-0.02
310-0C	11-3s	19.75	0.68	0.0204	0-6	0-3	3-5	-0.39
300-0C	18-6s	18.59	0.87	0.0127	0-3	0-2	1-0	-1.55
290-0C	28-0s	19.85	0.95	0.0055	0-1	0-1	0-2	-0.29
700-0P	382-2s	100.00	0.99	0.0001	0-0	0-0	0-0	+79.86
380-0P	62-2s	25.00	0.99	0.0007	0-0	0-0	0-0	+4.86
370-0P	52-3s	28.56	0.97	0.0027	0-1	0-1	0-1	+8.43
360-0P	42-5s	27.05	0.95	0.0044	0-2	0-1	0-3	+6.91
350-0P	33-0s	24.96	0.91	0.0071	0-3	0-1	0-6	+4.82
340-0P	23-6s	23.12	0.84	0.0116	0-5	0-2	1-4	+2.98
335-0P	19-2s	21.76	0.80	0.0145	0-5	0-2	2-0	+1.62
330-0P	15-1s	20.99	0.73	0.0177	0-6	0-2	2-7	+0.85
325-0P	11-4s	20.70	0.64	0.0204	0-7	0-3	4-2	+0.56
320-0P	8-2s	20.14*	0.54	0.0223	0-7	0-3	6-0	+0.00
315-0P	5-6s	20.19*	0.43	0.0220	0-7	0-3	5-6	+0.05
310-0P	3-5s	19.67	0.31	0.0205	0-6	0-3	3-5	-0.47
300-0P	0-7s	17.58	0.11	0.0124	0-3	0-1	0-7	-2.56
290-0P	0-2s	18.77	0.04	0.0049	0-1	0-1	0-2	-1.36
280-0P	0-1s	21.97	0.02	0.0022	0-1	0-0	0-1	+1.83
270-0P	0-1s	27.34	0.01	0.0015	0-1	0-0	0-1	+7.21
260-0P	0-1s	32.81	0.01	0.0011	0-1	0-0	0-1	+12.67

DECEMBER 05 30-YEAR T-BOND - CBOT OPTIONS

10/28/05 days to exp: 28 int. rate: 3.91% calc. imp vol of *: 7.63%

strike USZ05 111-26	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
134-00C	0-01s	25.78	0.01	0.0022	0-01	0-00	0-01	+18.15
130-00C	0-01s	21.88	0.01	0.0029	0-01	0-00	0-01	+14.25
129-00C	0-01s	21.09	0.01	0.0033	0-01	0-00	0-01	+13.47
128-00C	0-01s	19.92	0.01	0.0034	0-01	0-00	0-01	+12.29
127-00C	0-01s	18.95	0.01	0.0038	0-01	0-01	0-01	+11.32
126-00C	0-01s	17.97	0.01	0.0043	0-01	0-01	0-01	+10.34
125-00C	0-01s	16.80	0.01	0.0046	0-01	0-01	0-01	+9.17
124-00C	0-01s	15.82	0.01	0.0053	0-01	0-01	0-01	+8.19
123-00C	0-01s	14.84	0.01	0.0062	0-01	0-01	0-01	+7.22
122-00C	0-01s	13.67	0.01	0.0069	0-01	0-01	0-01	+6.04
121-00C	0-01s	12.50	0.01	0.0079	0-01	0-01	0-01	+4.87
120-00C	0-01s	11.33	0.01	0.0093	0-01	0-01	0-01	+3.70
119-00C	0-01s	10.16	0.01	0.0112	0-01	0-01	0-01	+2.53
118-00C	0-01s	8.98	0.02	0.0141	0-01	0-01	0-01	+1.36
117-00C	0-01s	7.81	0.02	0.0187	0-01	0-01	0-01	+0.18
116-00C	0-02s	7.32	0.04	0.0346	0-01	0-02	0-02	-0.30
115-00C	0-06s	7.47	0.09	0.0693	0-03	0-04	0-06	-0.16
114-00C	0-14s	7.47	0.18	0.1120	0-05	0-05	0-14	-0.16
113-00C	0-29s	7.50	0.31	0.1513	0-07	0-07	0-29	-0.13
112-00C	0-54s	7.58*	0.47	0.1690	0-08	0-08	0-54	-0.05
111-00C	1-27s	7.85*	0.63	0.1541	0-08	0-07	0-39	+0.22
110-00C	2-10s	8.23	0.76	0.1197	0-06	0-06	0-22	+0.60
109-00C	2-63s	8.45	0.86	0.0830	0-04	0-05	0-11	+0.82
108-00C	3-58s	9.08	0.92	0.0537	0-03	0-03	0-06	+1.45
107-00C	4-55s	9.67	0.95	0.0337	0-02	0-02	0-03	+2.04
106-00C	5-53s	10.16	0.97	0.0203	0-01	0-01	0-01	+2.53
105-00C	6-52s	6.25	1.00	0.0003	0-00	0-00	0-00	-1.38
104-00C	7-52s	6.25	1.00	0.0000	0-00	0-00	0-00	-1.38
103-00C	8-52s	12.50	0.99	0.0059	0-00	0-00	0-00	+4.87
101-00C	10-52s	12.50	1.00	0.0013	0-00	0-00	0-00	+4.87
100-00C	11-52s	12.50	1.00	0.0005	0-00	0-00	0-00	+4.87
121-00P	9-12s	12.50	0.99	0.0079	0-00	0-00	0-00	+4.87
120-00P	8-12s	6.25	1.00	0.0001	0-00	0-00	0-00	-1.38
119-00P	7-12s	6.25	1.00	0.0003	0-00	0-00	0-00	-1.38
118-00P	6-12s	6.25	1.00	0.0017	0-00	0-00	0-00	-1.38
117-00P	5-12s	6.25	0.99	0.0068	0-00	0-00	0-00	-1.38
116-00P	4-14s	7.76	0.95	0.0391	0-01	0-02	0-02	+0.14
115-00P	3-18s	7.67	0.90	0.0707	0-03	0-04	0-06	+0.04
114-00P	2-26s	7.54	0.82	0.1118	0-05	0-05	0-14	-0.08
113-00P	1-41s	7.52	0.69	0.1510	0-07	0-07	0-29	-0.11
112-00P	1-02s	7.58*	0.53	0.1690	0-08	0-08	0-54	-0.05
111-00P	0-39s	7.82*	0.36	0.1545	0-08	0-07	0-39	+0.20
110-00P	0-22s	8.17	0.23	0.1201	0-06	0-06	0-22	+0.54
109-00P	0-11s	8.30	0.13	0.0827	0-04	0-05	0-11	+0.67
108-00P	0-06s	8.84	0.08	0.0523	0-03	0-03	0-06	+1.21
107-00P	0-03s	9.18	0.04	0.0306	0-02	0-02	0-03	+1.55
106-00P	0-01s	8.98	0.02	0.0139	0-01	0-01	0-01	+1.36
105-00P	0-01s	10.35	0.01	0.0109	0-01	0-01	0-01	+2.72
104-00P	0-01s	11.72	0.01	0.0088	0-01	0-01	0-01	+4.09
103-00P	0-01s	13.09	0.01	0.0072	0-01	0-01	0-01	+5.46
102-00P	0-01s	14.45	0.01	0.0061	0-01	0-01	0-01	+6.82
101-00P	0-01s	15.82	0.01	0.0052	0-01	0-01	0-01	+8.19
100-00P	0-01s	17.19	0.01	0.0045	0-01	0-01	0-01	+9.56
99-00P	0-01s	18.36	0.01	0.0038	0-01	0-00	0-01	+10.73
98-00P	0-01s	19.92	0.01	0.0035	0-01	0-00	0-01	+12.29
97-00P	0-01s	21.09	0.01	0.0029	0-01	0-00	0-01	+13.47
96-00P	0-01s	22.66	0.01	0.0027	0-01	0-00	0-01	+15.03
95-00P	0-01s	23.83	0.01	0.0024	0-01	0-00	0-01	+16.20
94-00P	0-01s	25.39	0.01	0.0022	0-01	0-00	0-01	+17.76
93-00P	0-01s	26.56	0.01	0.0019	0-01	0-00	0-01	+18.93
90-00P	0-01s	30.86	0.00	0.0015	0-01	0-00	0-01	+23.23

Futures options can be confusing because some options contracts are priced differently than their respective underlying futures. There are 32 ticks to a point in a bond futures contract but 64 ticks to a point in a bond options contract. A point in both futures and options is $1,000. So, for the futures, each tick is $31.25 (1000/32). For the options, each tick is worth $15.625 (1000/64). The grains are priced in cents. The futures have 4, ¼ cent ticks for each cent. The options have 8, 1/8 ticks for each cent. So, there are more ticks in the options than in the futures. Keep this in mind when calculating profit and loss. Refer to the quotes in the previous 2 pages to see how there are

more ticks in the options markets for these markets compared to their respective futures markets.

Placing orders

You can buy an option by placing orders like:

Buy 1 December 3.00 Corn call for 10
Buy 1 December Corn 300 call for 15

Your broker will tell you the best way to place the order. You can trade online as well. You will enter all the necessary information in an order form. None of this is hard to learn.

Now you know how to place option orders and the terms involved, you can

now learn how to place spread orders. Spread orders are when more than one option is involved in the trade. A typical spread is a credit or debit spread. A debit spread is when you buy and sell an option for a debit. In other words, the option you buy costs more than the option you sell. A credit spread is a trade in which the option you sell cost more than the option you buy.

Next is an example of a debit spread followed by a credit spread.

DECEMBER 05 30-YEAR T-BOND - CBOT OPTIONS

10/28/05 days to exp: 28 int. rate: 3.91% calc. imp vol of *: 7.63%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
USZ05	111-26							
134-00C	0-01s	25.78	0.01	0.0022	0-01	0-00	0-01	+18.15
130-00C	0-01s	21.88	0.01	0.0029	0-01	0-00	0-01	+14.25
129-00C	0-01s	21.09	0.01	0.0033	0-01	0-00	0-01	+13.47
128-00C	0-01s	19.92	0.01	0.0034	0-01	0-00	0-01	+12.29
127-00C	0-01s	18.95	0.01	0.0038	0-01	0-01	0-01	+11.32
126-00C	0-01s	17.97	0.01	0.0043	0-01	0-01	0-01	+10.34
125-00C	0-01s	16.80	0.01	0.0046	0-01	0-01	0-01	+9.17
124-00C	0-01s	15.82	0.01	0.0053	0-01	0-01	0-01	+8.19
123-00C	0-01s	14.84	0.01	0.0062	0-01	0-01	0-01	+7.22
122-00C	0-01s	13.67	0.01	0.0069	0-01	0-01	0-01	+6.04
121-00C	0-01s	12.50	0.01	0.0079	0-01	0-01	0-01	+4.87
120-00C	0-01s	11.33	0.01	0.0093	0-01	0-01	0-01	+3.70
119-00C	0-01s	10.16	0.01	0.0112	0-01	0-01	0-01	+2.53
118-00C	0-01s	8.98	0.02	0.0141	0-01	0-01	0-01	+1.36
117-00C	0-01s	7.81	0.02	0.0187	0-01	0-01	0-01	+0.18
116-00C	0-02s	7.32	0.04	0.0346	0-01	0-02	0-02	-0.30
115-00C	0-06s	7.47	0.09	0.0693	0-03	0-04	0-06	-0.16
114-00C	0-14s	7.47	0.18	0.1120	0-05	0-05	0-14	-0.16
113-00C	0-29s	7.50	0.31	0.1513	0-07	0-07	0-29	-0.13
112-00C	0-54s	7.58*	0.47	0.1690	0-08	0-08	0-54	-0.05
111-00C	1-27s	7.85*	0.63	0.1541	0-08	0-07	0-39	+0.22
110-00C	2-10s	8.23	0.76	0.1197	0-06	0-06	0-22	+0.60
109-00C	2-63s	8.45	0.86	0.0830	0-04	0-05	0-11	+0.82
108-00C	3-58s	9.08	0.92	0.0537	0-03	0-03	0-06	+1.45
107-00C	4-55s	9.67	0.95	0.0337	0-02	0-02	0-03	+2.04
106-00C	5-53s	10.16	0.97	0.0203	0-01	0-01	0-01	+2.53
105-00C	6-52s	6.25	1.00	0.0003	0-00	0-00	0-00	-1.38
104-00C	7-52s	6.25	1.00	0.0000	0-00	0-00	0-00	-1.38
103-00C	8-52s	12.50	0.99	0.0059	0-00	0-00	0-00	+4.87
101-00C	10-52s	12.50	1.00	0.0013	0-00	0-00	0-00	+4.87
100-00C	11-52s	12.50	1.00	0.0005	0-00	0-00	0-00	+4.87
121-00P	9-12s	12.50	0.99	0.0079	0-00	0-00	0-00	+4.87
120-00P	8-12s	6.25	1.00	0.0001	0-00	0-00	0-00	-1.38
119-00P	7-12s	6.25	1.00	0.0003	0-00	0-00	0-00	-1.38
118-00P	6-12s	6.25	1.00	0.0017	0-00	0-00	0-00	-1.38
117-00P	5-12s	6.25	0.99	0.0068	0-00	0-00	0-00	-1.38
116-00P	4-14s	7.76	0.95	0.0391	0-01	0-02	0-02	+0.14
115-00P	3-18s	7.67	0.90	0.0707	0-03	0-04	0-06	+0.04
114-00P	2-26s	7.54	0.82	0.1118	0-05	0-05	0-14	-0.08
113-00P	1-41s	7.52	0.69	0.1510	0-07	0-07	0-29	-0.11
112-00P	1-02s	7.58*	0.53	0.1690	0-08	0-08	0-54	-0.05
111-00P	0-39s	7.82*	0.36	0.1545	0-08	0-07	0-39	+0.20
110-00P	0-22s	8.17	0.23	0.1201	0-06	0-06	0-22	+0.54
109-00P	0-11s	8.30	0.13	0.0827	0-04	0-05	0-11	+0.67
108-00P	0-06s	8.84	0.08	0.0523	0-03	0-03	0-06	+1.21
107-00P	0-03s	9.18	0.04	0.0306	0-02	0-02	0-03	+1.55
106-00P	0-01s	8.98	0.02	0.0139	0-01	0-01	0-01	+1.36
105-00P	0-01s	10.35	0.01	0.0109	0-01	0-01	0-01	+2.72
104-00P	0-01s	11.72	0.01	0.0088	0-01	0-01	0-01	+4.09
103-00P	0-01s	13.09	0.01	0.0072	0-01	0-01	0-01	+5.46
102-00P	0-01s	14.45	0.01	0.0061	0-01	0-01	0-01	+6.82
101-00P	0-01s	15.82	0.01	0.0052	0-01	0-01	0-01	+8.19
100-00P	0-01s	17.19	0.01	0.0045	0-01	0-01	0-01	+9.56
99-00P	0-01s	18.36	0.01	0.0038	0-01	0-00	0-01	+10.73
98-00P	0-01s	19.92	0.01	0.0035	0-01	0-00	0-01	+12.29
97-00P	0-01s	21.09	0.01	0.0029	0-01	0-00	0-01	+13.47
96-00P	0-01s	22.66	0.01	0.0027	0-01	0-00	0-01	+15.03
95-00P	0-01s	23.83	0.01	0.0024	0-01	0-00	0-01	+16.20
94-00P	0-01s	25.39	0.01	0.0022	0-01	0-00	0-01	+17.76
93-00P	0-01s	26.56	0.01	0.0019	0-01	0-00	0-01	+18.93
90-00P	0-01s	30.86	0.00	0.0015	0-01	0-00	0-01	+23.23

You can purchase a 112 call for -54 and sell a 113 call for -29. This is a debit spread since you are paying more for the option you are selling.

JANUARY 06 GOLD - COMEX OPTIONS

10/28/05 days to exp: 60 int. rate: 3.91% calc. imp vol of *: 14.65%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
GCG06	478.6							
520.0C	1.90s	17.00	0.12	0.0061	0.378	0.404	1.900	+2.35
510.0C	3.00s	16.49	0.18	0.0081	0.485	0.518	3.000	+1.84
500.0C	4.60s	15.84	0.26	0.0104	0.582	0.632	4.600	+1.19
495.0C	5.70s	15.53	0.31	0.0116	0.623	0.683	5.700	+0.89
490.0C	7.00s	15.18	0.36	0.0127	0.652	0.726	7.000	+0.53
485.0C	8.70s	14.99	0.42	0.0134	0.674	0.757	8.700	+0.34
480.0C	10.60s	14.65*	0.49	0.0139	0.670	0.769	10.600	+0.00
475.0C	13.10s	14.65*	0.56	0.0138	0.660	0.760	9.500	+0.00
470.0C	16.00s	14.71	0.63	0.0131	0.630	0.730	7.400	+0.06
465.0C	19.20s	14.73	0.69	0.0122	0.579	0.679	5.600	+0.08
460.0C	22.80s	14.88	0.75	0.0108	0.519	0.616	4.200	+0.23
455.0C	26.60s	14.90	0.80	0.0094	0.443	0.540	3.000	+0.25
450.0C	30.70s	15.01	0.85	0.0079	0.367	0.461	2.100	+0.36
445.0C	35.00s	15.11	0.88	0.0064	0.292	0.383	1.400	+0.46
440.0C	39.50s	15.31	0.91	0.0051	0.227	0.312	0.900	+0.67
520.0P	43.10s	17.16	0.87	0.0061	0.356	0.409	1.700	+2.52
510.0P	34.20s	16.49	0.82	0.0081	0.462	0.518	2.800	+1.84
500.0P	25.90s	15.89	0.74	0.0104	0.569	0.633	4.500	+1.25
495.0P	22.00s	15.54	0.69	0.0116	0.612	0.684	5.600	+0.89
490.0P	18.40s	15.28	0.63	0.0126	0.649	0.727	7.000	+0.63
485.0P	15.00s	14.91	0.57	0.0135	0.666	0.757	8.600	+0.26
480.0P	12.00s	14.66*	0.50	0.0139	0.670	0.769	10.600	+0.01
475.0P	9.50s	14.61*	0.43	0.0138	0.661	0.760	9.500	-0.03
470.0P	7.50s	14.78	0.37	0.0131	0.640	0.730	7.500	+0.13
465.0P	5.70s	14.75	0.30	0.0121	0.590	0.680	5.700	+0.10
460.0P	4.30s	14.85	0.24	0.0109	0.532	0.615	4.300	+0.20
455.0P	3.10s	14.80	0.19	0.0094	0.455	0.538	3.100	+0.15
450.0P	2.20s	14.83	0.14	0.0079	0.379	0.456	2.200	+0.18
445.0P	1.60s	15.07	0.11	0.0064	0.315	0.381	1.600	+0.42
440.0P	1.10s	15.16	0.08	0.0051	0.248	0.306	1.100	+0.51

You can sell a 480 put for 12 and purchase a 470 put for 7.50. This is a credit spread since you are paying less for the option you are selling.

Introduction

There are many futures options techniques that can be profitable. They can range from buying and selling options based on volatility to trading ratio backspreads based on the technical analysis of the underlying futures market.

One way is to trade spreads that can profit from time decay. You can sell options which you believe will lose more time value than the options you

buy.

The key is to find techniques that have an advantage when you put the trade on. What I will discuss are futures options trades that have this advantage. Trades that have a special quality that you can spot before you enter into it. You will be able to see what options are “cheaper” or more “expensive” compared to another option. Not by price or volatility necessarily but by the price per day. Even though an option might be more expensive than another, it might be cheaper in terms of volatility or price per day. Keep your eyes open to things other than the price of the option. Look at the deltas and theta as well.

Before I explain some techniques to use

based on delta and theta, I would like to define the terms in case you are not familiar with them.

Delta

Delta is the amount by which the option changes compared to the underlying asset. It is a measure of the probability that an option will expire in the money. Call deltas can be interpreted as the probability that the option will finish in the money. Put deltas can be interpreted as -1 times the probability that the option will finish in the money.

An at-the-money option, which has a delta of approximately 0.5, has roughly a 50/50 chance of ending up "in-the-

money". If an at-the-money wheat call option has a Delta of .5 and if wheat makes a 10-cent move higher, the premium on the option will increase approximately by 5 cents (.5 x 10 = 5), or $250 (each cent in premium is worth $50).

If you buy an at the money call, you will have a delta of +50.
If you sell an at the money call, you will have a delta of -50.

If you buy an at the money put, you will have a delta of -50.
If you sell an at the money put, you will have a delta of +50.

Basically, the deltas will be determined by where you want the market to go.

Think of it this way: If you sold an at the money call option, where would you want the market to move to? You would like it to go lower. So, you would have a delta of -50.

If you look at most at the money options, you will find that they are usually not at 50. That is because they are not exactly at the money. We still refer to these as the at the money options because they are the ones that are the closest to being there. It might have a delta of 47 or 53. Futures contracts have a delta of +100 for long contracts and -100 for short contracts.

Theta

Theta is defined as the change in the

price of an option for a 1-day decrease in the time left for expiration. At-the-money options have the greatest time value and the greatest rate of time decay (theta). The further an option goes "in-the-money" or "out-of-the-money", the smaller is the theta. As volatility falls, the time value declines and hence theta also declines.

Theta is the rate at which an option loses its value as each day passes.

The inherent assumption is that options are a "wasting asset."

Long options have negative theta

Short options have positive theta

As time passes, the theta of at-the-money

options increase, the theta of deep in-the-money and out-of-the-money options decrease.

DECEMBER 05 GOLD - COMEX OPTIONS

10/28/05 days to exp: 25 int. rate: 3.91% calc. imp vol of *: 14.56%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
GCZ05	474.8							
580.0C	0.10s	31.25	0.01	0.0006	0.080	0.030	0.100	+16.69
570.0C	0.10s	28.86	0.01	0.0007	0.079	0.032	0.100	+14.30
560.0C	0.10s	26.42	0.01	0.0008	0.078	0.035	0.100	+11.86
550.0C	0.10s	23.88	0.01	0.0009	0.077	0.037	0.100	+9.32
540.0C	0.10s	21.29	0.01	0.0011	0.077	0.041	0.100	+6.73
530.0C	0.10s	18.60	0.01	0.0014	0.076	0.047	0.100	+4.04
525.0C	0.20s	19.02	0.02	0.0023	0.139	0.075	0.200	+4.46
520.0C	0.30s	18.71	0.03	0.0032	0.196	0.101	0.300	+4.15
515.0C	0.40s	18.01	0.04	0.0042	0.247	0.126	0.400	+3.45
510.0C	0.60s	17.69	0.06	0.0057	0.339	0.166	0.600	+3.13
505.0C	0.90s	17.40	0.09	0.0076	0.458	0.214	0.900	+2.84
500.0C	1.30s	16.96	0.13	0.0098	0.587	0.267	1.300	+2.40
495.0C	1.80s	16.31	0.17	0.0124	0.712	0.322	1.800	+1.76
490.0C	2.60s	15.92	0.23	0.0153	0.863	0.384	2.600	+1.36
485.0C	3.70s	15.50	0.31	0.0182	0.996	0.439	3.700	+0.94
480.0C	5.20s	15.11	0.40	0.0205	1.084	0.480	5.200	+0.55
475.0C	7.10s	14.56*	0.50	0.0220	1.086	0.494	7.100	+0.00
470.0C	9.80s	14.54*	0.61	0.0211	1.032	0.476	5.000	-0.02
465.0C	13.10s	14.67	0.71	0.0186	0.905	0.426	3.300	+0.11
460.0C	16.80s	14.62	0.80	0.0153	0.708	0.353	2.000	+0.06
455.0C	20.90s	14.50	0.87	0.0115	0.491	0.268	1.100	-0.06
450.0C	25.40s	14.75	0.92	0.0080	0.327	0.195	0.600	+0.19
445.0C	30.10s	15.08	0.95	0.0053	0.203	0.135	0.300	+0.52
440.0C	34.90s	15.19	0.97	0.0032	0.099	0.085	0.100	+0.63
435.0C	39.80s	12.50	0.99	0.0007	0.000	0.000	0.000	-2.06
430.0C	44.80s	12.50	1.00	0.0002	0.000	0.000	0.000	-2.06
425.0C	49.80s	12.50	1.00	0.0001	0.000	0.000	0.000	-2.06
420.0C	54.80s	12.50	1.00	0.0000	0.000	0.000	0.000	-2.06
415.0C	59.80s	12.50	1.00	0.0000	0.000	0.000	0.000	-2.06
410.0C	64.80s	25.00	0.99	0.0010	0.000	0.000	0.000	+10.44
405.0C	69.80s	25.00	0.99	0.0006	0.000	0.000	0.000	+10.44
400.0C	74.80s	25.00	0.99	0.0004	0.000	0.000	0.000	+10.44
395.0C	79.80s	25.00	1.00	0.0002	0.000	0.000	0.000	+10.44
390.0C	84.80s	25.00	1.00	0.0001	0.000	0.000	0.000	+10.44
385.0C	89.80s	25.00	1.00	0.0001	0.000	0.000	0.000	+10.44
580.0P	105.20s	0.00	1.00	0.0000	0.000	0.000	-0.000	
570.0P	95.20s	0.00	1.00	0.0000	0.000	0.000	-0.000	
560.0P	85.20s	0.00	1.00	0.0000	0.000	0.000	-0.000	
550.0P	75.20s	0.00	1.00	0.0000	0.000	0.000	-0.000	
540.0P	65.20s	0.00	1.00	0.0000	0.000	0.000	-0.000	
530.0P	55.30s	21.22	0.97	0.0022	0.101	0.080	0.100	+6.66
525.0P	50.30s	19.51	0.97	0.0025	0.100	0.082	0.100	+4.95
520.0P	45.40s	18.95	0.96	0.0033	0.174	0.105	0.200	+4.39
515.0P	40.50s	18.07	0.95	0.0042	0.220	0.127	0.300	+3.51
510.0P	35.70s	17.65	0.93	0.0057	0.310	0.165	0.500	+3.09
505.0P	31.00s	17.30	0.91	0.0075	0.427	0.212	0.800	+2.74
500.0P	26.40s	16.83	0.87	0.0098	0.557	0.265	1.200	+2.27
495.0P	22.00s	16.49	0.83	0.0124	0.713	0.325	1.800	+1.93
490.0P	17.80s	16.03	0.77	0.0153	0.862	0.385	2.600	+1.47
485.0P	13.90s	15.57	0.69	0.0181	0.994	0.440	3.700	+1.01
480.0P	10.40s	15.14	0.60	0.0205	1.083	0.480	5.200	+0.58
475.0P	7.30s	14.56*	0.50	0.0220	1.086	0.494	7.100	+0.00
470.0P	5.00s	14.51*	0.39	0.0212	1.034	0.476	5.000	-0.04
465.0P	3.30s	14.61	0.29	0.0187	0.907	0.426	3.300	+0.05
460.0P	2.00s	14.50	0.20	0.0153	0.709	0.351	2.000	-0.06
455.0P	1.20s	14.67	0.13	0.0115	0.522	0.272	1.200	+0.11
450.0P	0.60s	14.37	0.07	0.0078	0.317	0.186	0.600	-0.19
445.0P	0.30s	14.39	0.04	0.0049	0.185	0.120	0.300	-0.17
440.0P	0.20s	15.28	0.03	0.0033	0.133	0.087	0.200	+0.72
435.0P	0.10s	15.48	0.01	0.0019	0.073	0.053	0.100	+0.92
430.0P	0.10s	17.24	0.01	0.0016	0.074	0.048	0.100	+2.68
425.0P	0.10s	18.99	0.01	0.0013	0.075	0.044	0.100	+4.44
420.0P	0.10s	20.75	0.01	0.0011	0.075	0.041	0.100	+6.19
415.0P	0.10s	22.51	0.01	0.0010	0.076	0.038	0.100	+7.95

GOLD - COMEX
DECEMBER 2005
AS OF:10/28/05
EACH GRID = 5.0
VALUE = $500
$/TROY
COMEX
9 DAY MOVING AVERAGE
18 DAY MOVING AVERAGE
40 DAY MOVING AVERAGE
EXP 12/28/05
490
480
470
460
450
440
430
14 21 28 4 11 18 25 2 9 16 23 30 6 13 20 27 4 11 18 25 1 8 15 22 29 5 12 19 26 3 10 17 24 31 7
MAR-05
APR
MAY
JUN
JUL
AUG
SEP
OCT
VOL & O.I.
400000
200000

Refer to Dec. Gold options on the previous pages.

You will see that I circled the at the money options. Both the call and the put options have a delta of .50. For every dollar move in the December Gold Futures, the calls and puts will move 50 cents.

The theta in this example is the same for both the put and the call. Some charting companies put the theta as the daily decay of the option. The company I am showing, uses theta-7. This is the time decay for 7 days. So in one week, the time decay is estimated to be 1.086.

Delta Neutral Trading

Delta neutral trades are trades that consist of more than one contract. It could consist of futures and options or just options.
Delta neutral trades are trades in which the total delta of all the options is Zero or close to it.

If you purchased one at the money call and one at the money put, you would be delta neutral. The call will have +50 deltas and the put will have -50 deltas.

The total is zero. This is a very simple delta neutral trade.

An example of a delta neutral trade that floor traders use is to buy 50 futures contracts and to buy 100 put options. The 50 futures contracts each will have a delta of 100. The 100 put options will each have a delta of -50. The futures delta will be 5000 and the put deltas will be -5000.

I will focus on delta neutral trades in this book. I will also be showing you my theta trades, which for the most part are delta neutral.

Theta Trading

The amount an option loses per day is important to know. Most traders that teach the buying and selling of options in different months, teach to sell the front month and buy the far month. This is a calendar spread. This is correct for many options but not all. I have found that it depends on the strike prices of the options. More specifically, how far they are from the money. The at the money close month options are more expensive per day than the at the money far month. It is best to sell the front month at the money and buy the far month at the money. For the out of the money strike prices, the reverse is true. The front months options are cheaper per day than the far months out of the money options.

You have to check to see which strikes will give you the advantage.

If you look at the options on the next pages, you will see that this price per day advantage can be seen in the theta as well.

I will list a couple of examples. I am looking at how much an option costs per day compared to an option from a different month in the same futures market.

JANUARY 06 30-YEAR T-BOND - CBOT OPTIONS

10/28/05 days to exp: 56 int. rate: 3.91% calc. imp vol of *: 8.08%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
USH06	111-17							
122-00C	0-01s	9.96	0.01	0.0068	0-00	0-01	0-01	+1.88
121-00C	0-01s	9.08	0.01	0.0076	0-00	0-01	0-01	+1.00
120-00C	0-01s	8.30	0.01	0.0090	0-00	0-01	0-01	+0.22
119-00C	0-02s	8.30	0.02	0.0155	0-01	0-02	0-02	+0.22
118-00C	0-03s	7.86	0.03	0.0222	0-01	0-03	0-03	-0.22
117-00C	0-06s	7.91	0.06	0.0356	0-02	0-04	0-06	-0.17
116-00C	0-10s	7.71	0.10	0.0515	0-02	0-05	0-10	-0.36
115-00C	0-18s	7.76	0.16	0.0715	0-03	0-07	0-18	-0.31
114-00C	0-31s	7.86	0.24	0.0907	0-04	0-09	0-31	-0.22
113-00C	0-49s	7.89	0.34	0.1059	0-05	0-10	0-49	-0.19
112-00C	1-11s	8.02*	0.45	0.1124	0-06	0-11	1-11	-0.06
111-00C	1-44s	8.14*	0.56	0.1100	0-06	0-11	1-10	+0.06
110-00C	2-21s	8.37	0.67	0.0985	0-05	0-10	0-51	+0.30
117-00P	5-35s	8.23	0.92	0.0375	0-02	0-04	0-05	+0.15
116-00P	4-39s	7.86	0.89	0.0522	0-02	0-05	0-09	-0.22
115-00P	3-47s	7.81	0.83	0.0715	0-03	0-07	0-17	-0.27
114-00P	2-60s	7.86	0.75	0.0907	0-04	0-09	0-30	-0.22
113-00P	2-15s	7.93	0.65	0.1054	0-05	0-10	0-49	-0.14
112-00P	1-41s	8.03*	0.54	0.1122	0-06	0-11	1-11	-0.05
111-00P	1-10s	8.13*	0.43	0.1101	0-06	0-11	1-10	+0.05
110-00P	0-51s	8.31	0.33	0.0991	0-05	0-10	0-51	+0.24
109-00P	0-34s	8.51	0.24	0.0832	0-05	0-09	0-34	+0.43
108-00P	0-23s	8.84	0.17	0.0656	0-04	0-07	0-23	+0.76
107-00P	0-15s	9.11	0.12	0.0497	0-03	0-06	0-15	+1.03
106-00P	0-10s	9.47	0.08	0.0365	0-02	0-05	0-10	+1.40
105-00P	0-06s	9.62	0.05	0.0254	0-02	0-03	0-06	+1.54
104-00P	0-04s	10.01	0.04	0.0179	0-01	0-03	0-04	+1.93
103-00P	0-03s	10.60	0.03	0.0131	0-01	0-02	0-03	+2.52
102-00P	0-02s	10.94	0.02	0.0090	0-01	0-01	0-02	+2.86

MARCH 06 30-YEAR T-BOND - CBOT OPTIONS

10/28/05 days to exp: 119 int. rate: 3.91% calc. imp vol of *: 8.29%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
USH06	111-17							
130-00C	0-01s	10.74	0.01	0.0027	0-00	0-01	0-01	+2.45
129-00C	0-01s	10.35	0.01	0.0031	0-00	0-01	0-01	+2.06
128-00C	0-01s	9.86	0.01	0.0034	0-00	0-01	0-01	+1.57
127-00C	0-01s	9.38	0.01	0.0037	0-00	0-01	0-01	+1.08
126-00C	0-01s	8.89	0.01	0.0041	0-00	0-01	0-01	+0.60
125-00C	0-01s	8.40	0.01	0.0046	0-00	0-01	0-01	+0.11
124-00C	0-02s	8.59	0.02	0.0074	0-00	0-02	0-02	+0.30
123-00C	0-03s	8.54	0.02	0.0102	0-01	0-03	0-03	+0.25
122-00C	0-04s	8.33	0.03	0.0131	0-01	0-03	0-04	+0.03
121-00C	0-06s	8.28	0.04	0.0176	0-01	0-04	0-06	-0.01
120-00C	0-08s	8.06	0.06	0.0225	0-01	0-05	0-08	-0.23
119-00C	0-12s	8.06	0.08	0.0294	0-01	0-07	0-12	-0.23
118-00C	0-18s	8.09	0.11	0.0373	0-02	0-09	0-18	-0.20
117-00C	0-25s	8.00	0.15	0.0457	0-02	0-10	0-25	-0.30
116-00C	0-36s	8.04	0.20	0.0544	0-03	0-12	0-36	-0.25
115-00C	0-50s	8.07	0.26	0.0624	0-03	0-13	0-50	-0.22
114-00C	1-04s	8.11	0.32	0.0690	0-03	0-15	1-04	-0.19
113-00C	1-26s	8.12	0.39	0.0737	0-04	0-16	1-26	-0.17
112-00C	1-54s	8.22*	0.47	0.0751	0-04	0-16	1-54	-0.07
111-00C	2-23s	8.34*	0.54	0.0736	0-04	0-16	1-53	+0.05
110-00C	2-61s	8.48	0.61	0.0695	0-04	0-15	1-27	+0.19
109-00C	3-39s	8.59	0.68	0.0638	0-03	0-14	1-05	+0.30
107-00C	5-08s	8.96	0.79	0.0487	0-03	0-12	0-38	+0.67
106-00C	5-60s	9.06	0.83	0.0410	0-02	0-10	0-26	+0.77
90-00C	21-34s	12.50	0.99	0.0005	0-00	0-00	0-00	+4.21
121-00P	9-32s	9.13	0.93	0.0208	0-01	0-06	0-02	+0.84
120-00P	8-35s	8.79	0.91	0.0252	0-01	0-06	0-05	+0.50
119-00P	7-39s	8.52	0.89	0.0309	0-01	0-08	0-09	+0.23
118-00P	6-45s	8.37	0.86	0.0379	0-02	0-09	0-15	+0.08
117-00P	5-53s	8.25	0.83	0.0458	0-02	0-10	0-23	-0.04
116-00P	5-00s	8.19	0.78	0.0541	0-03	0-12	0-34	-0.10
115-00P	4-15s	8.21	0.73	0.0618	0-03	0-13	0-49	-0.08
114-00P	3-33s	8.18	0.66	0.0685	0-03	0-15	1-03	-0.11
113-00P	2-56s	8.20	0.59	0.0730	0-04	0-16	1-26	-0.09
112-00P	2-20s	8.25*	0.52	0.0748	0-04	0-16	1-54	-0.05
111-00P	1-54s	8.37*	0.45	0.0733	0-04	0-16	1-54	+0.08
110-00P	1-27s	8.40	0.37	0.0701	0-04	0-15	1-27	+0.11
109-00P	1-07s	8.59	0.31	0.0638	0-04	0-14	1-07	+0.30
108-00P	0-53s	8.64	0.25	0.0569	0-03	0-13	0-53	+0.35
107-00P	0-40s	8.81	0.20	0.0489	0-03	0-12	0-40	+0.52
106-00P	0-30s	9.00	0.15	0.0410	0-03	0-10	0-30	+0.71
105-00P	0-22s	9.16	0.12	0.0337	0-02	0-09	0-22	+0.86
104-00P	0-16s	9.33	0.09	0.0270	0-02	0-07	0-16	+1.04
103-00P	0-11s	9.38	0.06	0.0210	0-01	0-06	0-11	+1.08
102-00P	0-08s	9.59	0.05	0.0163	0-01	0-05	0-08	+1.30
101-00P	0-06s	9.86	0.04	0.0127	0-01	0-04	0-06	+1.57
100-00P	0-05s	10.35	0.03	0.0103	0-01	0-03	0-05	+2.06
99-00P	0-04s	10.74	0.02	0.0082	0-01	0-03	0-04	+2.45
98-00P	0-03s	10.99	0.02	0.0063	0-01	0-02	0-03	+2.70
97-00P	0-02s	11.04	0.01	0.0045	0-00	0-02	0-02	+2.74
96-00P	0-01s	10.74	0.01	0.0027	0-00	0-01	0-01	+2.45
95-00P	0-01s	11.52	0.01	0.0025	0-00	0-01	0-01	+3.23
94-00P	0-01s	12.11	0.01	0.0022	0-00	0-01	0-01	+3.82
92-00P	0-01s	13.48	0.01	0.0018	0-00	0-01	0-01	+5.19
90-00P	0-01s	14.84	0.00	0.0015	0-00	0-01	0-01	+6.55

30-YEAR T-BOND - CBOT
MARCH 2006
AS OF: 10/28/05
EACH GRID = 1-00
VALUE = $1000
32NDS
9 DAY MOVING AVERAGE
18 DAY MOVING AVERAGE
40 DAY MOVING AVERAGE
EXP 03/22/06
122
120
118
116
114
112
110
14 21 28 4 11 18 25 2 9 16 23 30 6 13 20 27 4 11 18 25 1 8 15 22 29 5 12 19 26 3 10 17 24 31 7
MAR-05
APR
MAY
JUN
JUL
AUG
SEP
OCT
VOL & O.I.
100000
50000

March T-Bond futures contract closed at 111-17.

You will notice that January options also follow the March futures contract. Not every option month has an underlying futures. If it does not, it will follow the next months traded futures.

January T-Bond options have 56 days left until expiration. March T-Bond options have 119 days left until expiration.

At the money comparison

January T-Bond 112 Call options settled at 1-11.
March T-Bond 112 Call options settled at 1-54.

The March 112 Call is 1.57 times more expensive than the January 112 Call, but it has 2.13 times more time left.
January T-Bond 111 Put options settled at 1-10.
March T-Bond 111 Put options settled at 1-54.

The March 111 Put is 1.59 times more expensive than the January 111 Put, but it has 2.13 times more time left.

Out of the money comparison
January T-Bond 118 Call options settled at -03.
March T-Bond 118 Call options settled at -18.

The March 118 Call is 6 times more expensive than the January 118 Call, but it ONLY has 2.13 times more time left.

January T-Bond 104 Put options settled at -04.
March T-Bond 104 Put options settled at -16.

The March 104 Put is 4 times more expensive than the January 104 Put, but it ONLY has 2.13 times more time left.

DECEMBER 05 U.S. DOLLAR INDEX - FINEX OPTIONS

10/28/05 days to exp: 42 int. rate: 3.91% calc. imp vol of *: 8.09%

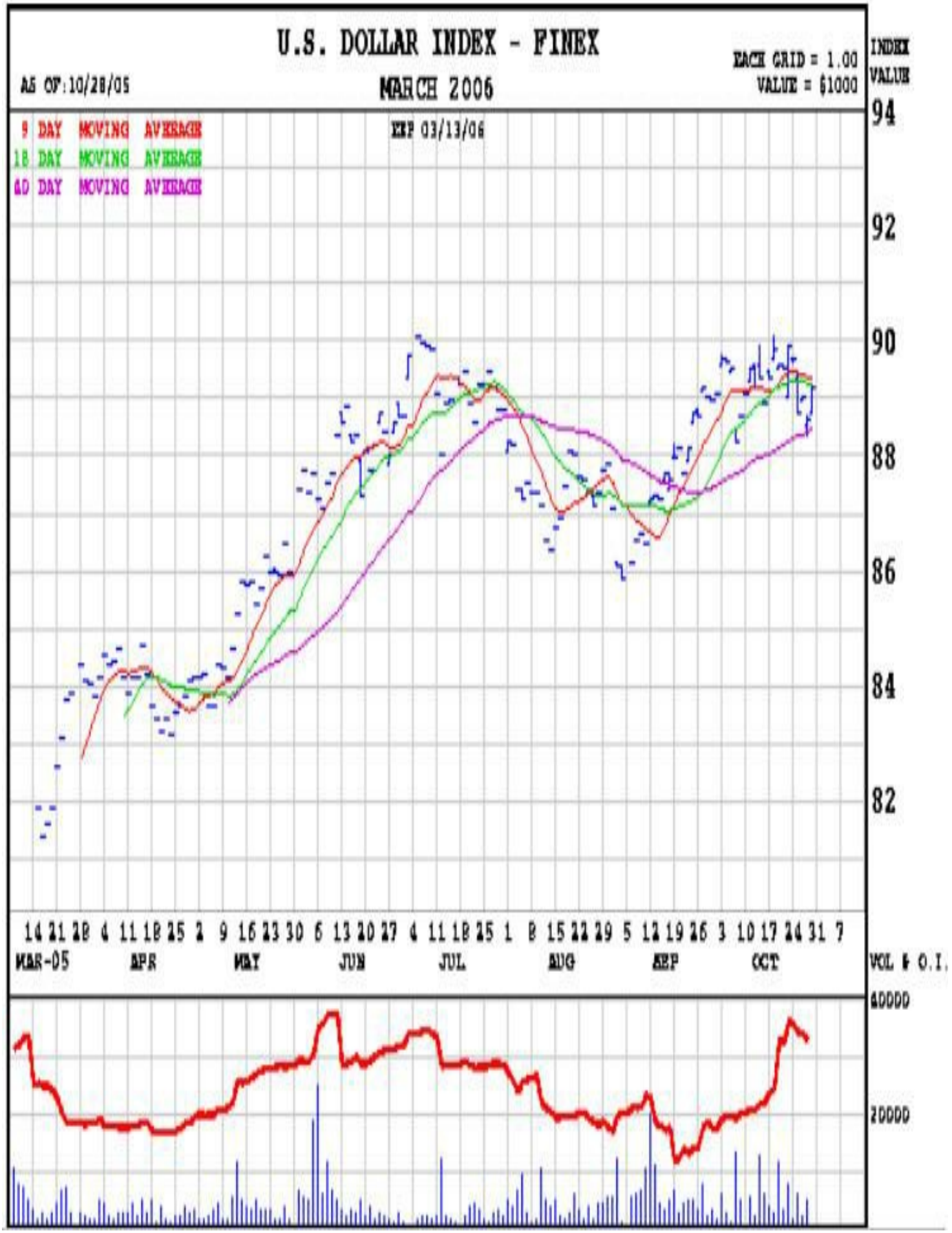
strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
DXZ05	89.46							
97.00C	0.01s	10.13	0.01	0.0084	0.005	0.010	0.010	+2.05
96.00C	0.01s	9.01	0.01	0.0105	0.005	0.011	0.010	+0.92
95.00C	0.01s	7.84	0.01	0.0134	0.005	0.013	0.010	-0.25
94.00C	0.03s	7.86	0.03	0.0304	0.013	0.027	0.030	-0.23
93.00C	0.09s	8.12	0.08	0.0609	0.029	0.051	0.090	+0.04
92.00C	0.23s	8.51	0.17	0.0974	0.054	0.080	0.230	+0.42
91.00C	0.40s	8.08	0.27	0.1346	0.069	0.102	0.400	-0.01
90.00C	0.73s	8.07*	0.42	0.1588	0.082	0.118	0.730	-0.02
89.00C	1.22s	8.10*	0.58	0.1583	0.082	0.118	0.760	+0.02
88.00C	1.87s	8.16	0.73	0.1332	0.069	0.102	0.410	+0.08
87.00C	2.65s	8.18	0.84	0.0952	0.047	0.076	0.190	+0.09
86.00C	3.53s	8.20	0.92	0.0572	0.025	0.048	0.070	+0.11
85.00C	4.50s	9.28	0.95	0.0368	0.019	0.036	0.040	+1.20
84.00C	5.47s	9.92	0.97	0.0222	0.010	0.024	0.010	+1.83
83.00C	6.47s	11.71	0.97	0.0181	0.010	0.023	0.010	+3.62
82.00C	7.47s	13.53	0.97	0.0153	0.010	0.022	0.010	+5.44
81.00C	8.47s	15.36	0.97	0.0132	0.010	0.021	0.010	+7.27
80.00C	9.47s	17.21	0.97	0.0115	0.010	0.020	0.010	+9.13
79.00C	10.47s	19.09	0.97	0.0102	0.010	0.020	0.010	+11.01
78.00C	11.47s	21.00	0.97	0.0091	0.010	0.019	0.010	+12.91
77.00C	12.47s	22.92	0.97	0.0082	0.010	0.019	0.010	+14.84
75.00C	14.47s	26.86	0.97	0.0069	0.010	0.018	0.010	+18.77
74.00C	15.47s	28.87	0.97	0.0063	0.010	0.018	0.010	+20.78
97.00P	7.55s	12.56	0.97	0.0179	0.010	0.024	0.010	+4.47
96.00P	6.55s	11.02	0.96	0.0207	0.010	0.024	0.010	+2.94
95.00P	5.55s	9.45	0.96	0.0247	0.010	0.026	0.010	+1.37
94.00P	4.56s	8.29	0.96	0.0344	0.013	0.031	0.020	+0.20
93.00P	3.62s	8.25	0.91	0.0618	0.028	0.052	0.080	+0.16
92.00P	2.73s	8.13	0.84	0.0975	0.047	0.077	0.190	+0.04
91.00P	1.94s	8.15	0.72	0.1339	0.069	0.103	0.400	+0.06
90.00P	1.27s	8.09*	0.58	0.1584	0.082	0.118	0.730	+0.00
89.00P	0.76s	8.08*	0.42	0.1586	0.083	0.118	0.760	+0.00
88.00P	0.41s	8.10	0.27	0.1339	0.069	0.102	0.410	+0.01
87.00P	0.19s	8.02	0.15	0.0952	0.047	0.075	0.190	-0.06
86.00P	0.08s	8.07	0.07	0.0563	0.027	0.047	0.080	-0.02
85.00P	0.05s	8.95	0.04	0.0345	0.019	0.033	0.050	+0.86
84.00P	0.02s	9.08	0.02	0.0173	0.009	0.018	0.020	+1.00
83.00P	0.01s	9.57	0.01	0.0092	0.005	0.010	0.010	+1.48
82.00P	0.01s	10.94	0.01	0.0073	0.005	0.009	0.010	+2.85
81.00P	0.01s	12.28	0.01	0.0059	0.006	0.008	0.010	+4.19
80.00P	0.01s	13.62	0.01	0.0049	0.006	0.008	0.010	+5.54
79.00P	0.01s	14.99	0.01	0.0041	0.006	0.007	0.010	+6.90
78.00P	0.01s	16.33	0.01	0.0035	0.006	0.006	0.010	+8.25
77.00P	0.01s	17.70	0.01	0.0030	0.006	0.006	0.010	+9.61
75.00P	0.01s	20.46	0.00	0.0023	0.006	0.005	0.010	+12.37
74.00P	0.01s	21.88	0.00	0.0021	0.006	0.005	0.010	+13.79

MARCH 06 U.S. DOLLAR INDEX - FINEX OPTIONS

10/28/05 days to exp: 126 int. rate: 3.91% calc. imp vol of *: 8.36%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
DXH06	89.19							
97.00C	0.09s	8.54	0.05	0.0226	0.012	0.062	0.090	+0.18
96.00C	0.13s	8.33	0.07	0.0302	0.016	0.078	0.130	-0.03
95.00C	0.20s	8.26	0.10	0.0403	0.021	0.100	0.200	-0.10
94.00C	0.35s	8.58	0.15	0.0522	0.029	0.130	0.350	+0.22
93.00C	0.52s	8.60	0.21	0.0633	0.036	0.155	0.520	+0.25
92.00C	0.77s	8.75	0.28	0.0727	0.042	0.178	0.770	+0.39
91.00C	1.02s	8.50	0.35	0.0823	0.045	0.194	1.020	+0.15
90.00C	1.35s	8.30*	0.43	0.0893	0.047	0.204	1.350	-0.06
89.00C	1.82s	8.37*	0.52	0.0895	0.047	0.206	1.630	+0.01
88.00C	2.38s	8.44	0.61	0.0851	0.045	0.198	1.190	+0.09
87.00C	3.03s	8.54	0.69	0.0768	0.041	0.182	0.840	+0.19
86.00C	3.78s	8.80	0.76	0.0654	0.036	0.162	0.590	+0.44
85.00C	4.58s	8.99	0.81	0.0538	0.030	0.139	0.390	+0.63
84.00C	5.44s	9.28	0.86	0.0429	0.024	0.116	0.250	+0.92
83.00C	6.34s	9.64	0.89	0.0335	0.019	0.096	0.150	+1.28
82.00C	7.26s	9.95	0.92	0.0257	0.014	0.077	0.070	+1.59
81.00C	8.20s	10.29	0.94	0.0195	0.009	0.062	0.010	+1.93
80.00C	9.20s	11.60	0.94	0.0172	0.010	0.061	0.010	+3.24
79.00C	10.20s	12.92	0.94	0.0152	0.010	0.059	0.010	+4.56
97.00P	7.84s	9.29	0.92	0.0258	0.011	0.074	0.030	+0.93
96.00P	6.89s	8.89	0.90	0.0325	0.014	0.088	0.080	+0.53
95.00P	5.97s	8.65	0.88	0.0415	0.019	0.107	0.160	+0.30
94.00P	5.13s	8.86	0.83	0.0523	0.027	0.134	0.320	+0.50
93.00P	4.31s	8.81	0.77	0.0628	0.034	0.157	0.500	+0.45
92.00P	3.56s	8.85	0.71	0.0721	0.041	0.178	0.750	+0.49
91.00P	2.82s	8.58	0.64	0.0817	0.044	0.194	1.010	+0.22
90.00P	2.16s	8.36*	0.56	0.0887	0.046	0.204	1.350	+0.00
89.00P	1.63s	8.36*	0.47	0.0896	0.047	0.206	1.630	+0.00
88.00P	1.20s	8.41	0.38	0.0854	0.046	0.198	1.200	+0.06
87.00P	0.86s	8.49	0.30	0.0771	0.042	0.182	0.860	+0.13
86.00P	0.61s	8.65	0.23	0.0659	0.037	0.161	0.610	+0.29
85.00P	0.42s	8.79	0.17	0.0540	0.032	0.136	0.420	+0.43
84.00P	0.29s	9.00	0.12	0.0426	0.026	0.112	0.290	+0.64
83.00P	0.19s	9.13	0.08	0.0323	0.020	0.089	0.190	+0.77
82.00P	0.12s	9.24	0.06	0.0235	0.015	0.067	0.120	+0.88
81.00P	0.06s	9.00	0.03	0.0151	0.009	0.044	0.060	+0.64
80.00P	0.05s	9.66	0.03	0.0117	0.008	0.037	0.050	+1.30
79.00P	0.02s	9.25	0.01	0.0063	0.004	0.021	0.020	+0.89

U.S. DOLLAR INDEX - FINEX
AS OF:10/28/05
DECEMBER 2005
EACH GRID = 1.00
VALUE = $1000
INDEX VALUE
9 DAY MOVING AVERAGE
18 DAY MOVING AVERAGE
40 DAY MOVING AVERAGE
EXP 12/19/05
94
92
90
88
86
84
82
14 21 28 4 11 18 25 2 9 16 23 30 6 13 20 27 4 11 18 25 1 8 15 22 29 5 12 19 26 3 10 17 24 31 7
MAR-05
APR
MAY
JUN
JUL
AUG
SEP
OCT
VOL & O.I.
40000
20000


U.S. DOLLAR INDEX - FINEX
MARCH 2006
AS OF:10/28/05
EACH GRID = 1.00
VALUE = $1000
INDEX VALUE
9 DAY MOVING AVERAGE
18 DAY MOVING AVERAGE
40 DAY MOVING AVERAGE
EXP 03/13/06
94
92
90
88
86
84
82
14 21 28 4 11 18 25 2 9 16 23 30 6 13 20 27 4 11 18 25 1 8 15 22 29 5 12 19 26 3 10 17 24 31 7
MAR-05
APR
MAY
JUN
JUL
AUG
SEP
OCT
VOL & O.I.
40000
20000

You will notice that in the example above, there are 2 different underlying futures markets involved. Each options market is following it's own futures market. This is fine. Although the prices are not exactly the same, the markets generally move in the same direction. In this example, the out of the money options in the front month have another advantage. The strike prices are a little closer than in the far month options. Only the out of the money options will be looked at for this scenario.

December U.S. Dollar contract closed at 89.46 March U.S. Dollar contract closed at 89.19
December U.S. Dollar options have 42

days left until expiration. March U.S. Dollar options have 126 days left until expiration.

Out of the money comparison

December U.S. Dollar 94 Call options settled at .03.
March U.S. Dollar 94 Call options settled at .35.

The March 94 Call is 11.7 times more expensive than
The December 94 Call, but it ONLY has 3 times more time left.

December U.S. Dollar 85 Put options settled at .05. March U.S.
Dollar 84 Put options settled at .29.

The March 84 Put is 5.8 times more expensive than
the December 85 Put, but it ONLY has 3 times more time left.

You can see that what most traders teach about selling the front month and buying the far month is correct for the at the money options. For the far out of the money options, you can see that the advantage is to buy the front month and sell the far month. Look at the price per day of the options as well as the theta of the options. You can easily see where the advantage is.

If you look at the price for out of the money options, you will notice the out of

the money front month options are not worth much. You have to ask yourself the following question. If the theta for a Bond option is -1 per week and the option is only worth -3, then how much will it lose in 8 weeks (56 days). Of course it will not lose -1 every 7 days because it is only worth -3. That is the most it can lose. Buying cheap options like this are a great way to cover your self when selling options. Instead of selling options without protection, cover them with options in a different month.

Here is a supplement from my course that explains the price per day advantage.

I would like to take some time and go over the best way to know the price per

day trades have an immediate advantage.

Below are three option months. All three months follow the same futures contract. This is the easiest way to see the advantage of the technique you learned in the book.

I want to compare the rate of decay between the option months. We will see how the option prices change from month to month.
Let's start by looking at the 117 call.

The April 117 call is 4 ticks. The May 117 call is 17 ticks. The April option will expire in 32 days. If the market does nothing and stays steady, what will the April 117 call be worth. Zero, of course. What will the May 117 call be

worth. Probably around what the April option is worth right now.

After 32 days, the May options will have 28 days left. So the May options will be priced roughly the same as what the April options are now. If they go from 17 ticks to 4 ticks, that is a loss of 13 ticks. Compare that to the April option losing 4 ticks. This is why I sell the out of the money further months and buy the out of the money close months.

Let's look at the near the money options. The closest strike to the money is the 112 Call. The April 112 option is 1-02. If the market does nothing at the end of 32 days, this option will lose 1-02. The May 112 Call option is 1-36. After 32 days, the May should be worth roughly

what the April is now, which is 1-02.

The April option will lose 1-02 (64 + 2) or 66 ticks. Compare that to the May 112 Call which will lose 34 ticks (1-36 minus 1-02). When it comes to the at the money options, the front month will waste more than the back month. The opposite of the out of the money options.

You can look at all the options and see this trend. For the calls, the higher you go, the more it makes sense to buy the front month. The more you are closer to the money, it makes more sense to sell the front month. The same goes with the put side.

For the put side, the lower the strike is away from the money, the more it makes

sense to buy the front month. The more you are closer to the money, it makes more sense to sell the front month.

Let's compare the April to the June as well.

To find out what the June options will be worth in one month, look at the May options. June 117 Call options are 30 ticks. After roughly 30 days, they will be worth 17 ticks (see May 117 Call). That is a loss of 13 ticks. Compare that to the 4 tick loss of the April 117 Call.

The June 112 Call option is 1-61. In roughly 30 days, the option should be worth roughly 1-36 (see May 112 Call). That is a loss of 25 ticks. Compare that to the loss of 1-02 (66 ticks) of the April

112 Call.

When the options follow different futures markets, it is a little more difficult to see all this but it is still the same reasoning. If you can understand this, then you understand the price per day technique.

APRIL 04 30-YEAR T-BOND - CBOT OPTIONS

02/23/04 days to exp: 32 int. rate: 0.94% calc. imp vol of *: 9.94%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
USM04	111-14							
124-00C	0-01s	15.23	0.01	0.0051	0-01	0-01	0-01	+5.30
123-00C	0-01s	14.26	0.01	0.0058	0-01	0-01	0-01	+4.32
122-00C	0-01s	13.09	0.01	0.0063	0-01	0-01	0-01	+3.15
121-00C	0-01s	12.11	0.01	0.0074	0-01	0-01	0-01	+2.17
120-00C	0-01s	11.13	0.01	0.0090	0-01	0-01	0-01	+1.20
119-00C	0-01s	9.96	0.01	0.0105	0-01	0-01	0-01	+0.03
118-00C	0-01s	8.89	0.02	0.0131	0-01	0-01	0-01	-1.05
117-00C	0-04s	9.77	0.05	0.0307	0-02	0-02	0-04	-0.17
116-00C	0-07s	9.47	0.08	0.0468	0-03	0-03	0-07	-0.46
115-00C	0-14s	9.62	0.14	0.0693	0-05	0-05	0-14	-0.32
114-00C	0-24s	9.50	0.21	0.0928	0-06	0-06	0-24	-0.44
113-00C	0-41s	9.59	0.32	0.1124	0-08	0-08	0-41	-0.34
112-00C	1-02s	9.80*	0.44	0.1217	0-09	0-08	1-02	-0.13
111-00C	1-35s	10.03*	0.56	0.1191	0-10	0-08	1-07	+0.10
110-00C	2-12s	10.33	0.67	0.1062	0-09	0-08	0-48	+0.39
109-00C	2-61s	10.86	0.76	0.0868	0-08	0-07	0-33	+0.93
108-00C	3-50s	11.33	0.83	0.0679	0-07	0-06	0-22	+1.39
107-00C	4-42s	11.67	0.88	0.0508	0-05	0-04	0-14	+1.73
106-00C	5-36s	11.82	0.93	0.0359	0-03	0-03	0-08	+1.88
105-00C	6-33s	12.26	0.95	0.0249	0-02	0-02	0-05	+2.32
104-00C	7-31s	12.70	0.97	0.0170	0-02	0-02	0-03	+2.76
115-00P	3-50s	9.67	0.86	0.0694	0-05	0-05	0-14	-0.27
114-00P	2-60s	9.52	0.79	0.0927	0-06	0-06	0-24	-0.41
113-00P	2-13s	9.62	0.68	0.1122	0-08	0-08	0-41	-0.32
112-00P	1-38s	9.81*	0.56	0.1216	0-09	0-08	1-02	-0.12
111-00P	1-07s	10.03*	0.44	0.1191	0-10	0-08	1-07	+0.10
110-00P	0-48s	10.31	0.33	0.1063	0-09	0-08	0-48	+0.38
109-00P	0-33s	10.85	0.24	0.0869	0-08	0-07	0-33	+0.92
108-00P	0-22s	11.30	0.17	0.0679	0-07	0-06	0-22	+1.37
107-00P	0-14s	11.62	0.12	0.0507	0-05	0-04	0-14	+1.69
106-00P	0-09s	12.04	0.08	0.0365	0-04	0-03	0-09	+2.10
105-00P	0-06s	12.55	0.05	0.0259	0-03	0-02	0-06	+2.61
104-00P	0-04s	13.09	0.04	0.0182	0-02	0-02	0-04	+3.15
103-00P	0-03s	13.87	0.03	0.0133	0-02	0-01	0-03	+3.93
102-00P	0-02s	14.45	0.02	0.0094	0-01	0-01	0-02	+4.52
101-00P	0-01s	14.26	0.01	0.0053	0-01	0-01	0-01	+4.32
100-00P	0-01s	15.63	0.01	0.0047	0-01	0-01	0-01	+5.69
99-00P	0-01s	16.80	0.01	0.0040	0-01	0-01	0-01	+6.86
98-00P	0-01s	18.16	0.01	0.0036	0-01	0-01	0-01	+8.23
97-00P	0-01s	19.53	0.01	0.0032	0-01	0-01	0-01	+9.60
94-00P	0-01s	23.44	0.01	0.0023	0-01	0-00	0-01	+13.50

MAY 04 30-YEAR T-BOND - CBOT OPTIONS

02/23/04 days to exp: 60 int. rate: 0.94% calc. imp vol of *: 10.24%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
USM04	111-14							
122-00C	0-02s	10.55	0.02	0.0093	0-01	0-02	0-02	+0.31
121-00C	0-03s	10.40	0.03	0.0131	0-01	0-02	0-03	+0.17
120-00C	0-04s	10.01	0.04	0.0173	0-01	0-03	0-04	-0.23
119-00C	0-07s	10.11	0.06	0.0250	0-02	0-04	0-07	-0.13
118-00C	0-11s	10.08	0.08	0.0338	0-03	0-05	0-11	-0.15
117-00C	0-17s	10.08	0.12	0.0440	0-03	0-06	0-17	-0.15
116-00C	0-25s	10.00	0.17	0.0551	0-04	0-08	0-25	-0.24
115-00C	0-37s	10.03	0.23	0.0662	0-05	0-09	0-37	-0.20
114-00C	0-53s	10.06	0.30	0.0759	0-06	0-10	0-53	-0.18
113-00C	1-10s	10.11	0.37	0.0829	0-07	0-11	1-10	-0.13
112-00C	1-36s	10.14*	0.46	0.0865	0-07	0-11	1-36	-0.09
111-00C	2-05s	10.31*	0.54	0.0850	0-07	0-11	1-41	+0.07
110-00C	2-44s	10.53	0.63	0.0794	0-07	0-11	1-16	+0.30
109-00C	3-23s	10.67	0.70	0.0717	0-06	0-10	0-59	+0.43
108-00C	4-09s	11.10	0.76	0.0614	0-06	0-09	0-45	+0.86
107-00C	4-60s	11.24	0.82	0.0516	0-05	0-08	0-32	+1.01
114-00P	3-25s	10.08	0.70	0.0757	0-06	0-10	0-53	-0.15
112-00P	2-08s	10.14*	0.54	0.0865	0-07	0-11	1-36	-0.09
111-00P	1-41s	10.30*	0.45	0.0850	0-07	0-11	1-41	+0.07
110-00P	1-16s	10.52	0.37	0.0795	0-07	0-11	1-16	+0.29
109-00P	0-60s	10.75	0.30	0.0713	0-06	0-10	0-60	+0.52
108-00P	0-45s	11.06	0.24	0.0615	0-06	0-09	0-45	+0.82
107-00P	0-33s	11.32	0.18	0.0516	0-05	0-08	0-33	+1.08
106-00P	0-24s	11.60	0.14	0.0421	0-04	0-07	0-24	+1.36
105-00P	0-16s	11.62	0.10	0.0332	0-03	0-05	0-16	+1.39
104-00P	0-12s	12.06	0.08	0.0260	0-03	0-04	0-12	+1.83
103-00P	0-08s	12.21	0.05	0.0196	0-02	0-03	0-08	+1.97
102-00P	0-06s	12.65	0.04	0.0150	0-02	0-03	0-06	+2.41
101-00P	0-04s	12.84	0.03	0.0110	0-01	0-02	0-04	+2.61
100-00P	0-03s	13.28	0.02	0.0083	0-01	0-02	0-03	+3.05
99-00P	0-02s	13.48	0.01	0.0059	0-01	0-01	0-02	+3.24

JUNE 04 30-YEAR T-BOND - CBOT OPTIONS

02/23/04 days to exp: 88 int. rate: 0.94% calc. imp vol of *: 10.45%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
USM04	111-14							
135-00C	0-01s	15.23	0.01	0.0020	0-00	0-01	0-01	+4.78
130-00C	0-01s	12.70	0.01	0.0029	0-00	0-01	0-01	+2.24
128-00C	0-01s	11.52	0.01	0.0034	0-00	0-01	0-01	+1.07
126-00C	0-01s	10.35	0.01	0.0040	0-00	0-01	0-01	-0.10
125-00C	0-02s	10.64	0.01	0.0065	0-01	0-02	0-02	+0.19
124-00C	0-03s	10.64	0.02	0.0089	0-01	0-02	0-03	+0.19
123-00C	0-04s	10.45	0.03	0.0115	0-01	0-03	0-04	+0.00
122-00C	0-05s	10.11	0.04	0.0142	0-01	0-03	0-05	-0.35
121-00C	0-07s	9.99	0.05	0.0185	0-01	0-04	0-07	-0.47
120-00C	0-11s	10.11	0.07	0.0245	0-02	0-05	0-11	-0.35
119-00C	0-15s	9.96	0.09	0.0306	0-02	0-06	0-15	-0.49
118-00C	0-21s	9.91	0.12	0.0378	0-03	0-08	0-21	-0.54
117-00C	0-30s	9.96	0.17	0.0456	0-03	0-09	0-30	-0.49
116-00C	0-41s	9.95	0.21	0.0532	0-04	0-10	0-41	-0.50
115-00C	0-56s	10.00	0.27	0.0602	0-05	0-12	0-56	-0.46
114-00C	1-10s	10.00	0.33	0.0661	0-05	0-13	1-10	-0.46
113-00C	1-34s	10.14	0.40	0.0694	0-06	0-14	1-34	-0.31
112-00C	1-61s	10.18*	0.47	0.0712	0-06	0-14	1-61	-0.27
111-00C	2-34s	10.61*	0.54	0.0682	0-06	0-14	2-06	+0.15
110-00C	3-04s	10.51	0.61	0.0666	0-06	0-13	1-40	+0.06
109-00C	3-46s	10.68	0.67	0.0616	0-05	0-13	1-18	+0.23
108-00C	4-28s	10.88	0.73	0.0554	0-05	0-12	1-00	+0.42
107-00C	5-15s	11.24	0.78	0.0483	0-05	0-11	0-51	+0.79
106-00C	6-03s	11.44	0.82	0.0417	0-04	0-09	0-39	+0.98
105-00C	6-59s	11.84	0.85	0.0353	0-04	0-08	0-31	+1.39
104-00C	7-51s	12.01	0.88	0.0295	0-03	0-07	0-23	+1.56
102-00C	9-41s	12.60	0.93	0.0198	0-02	0-05	0-13	+2.14
96-00C	15-29s	14.60	0.98	0.0053	0-01	0-02	0-01	+4.15
116-00P	5-11s	9.81	0.79	0.0535	0-04	0-10	0-39	-0.64
114-00P	3-47s	10.11	0.67	0.0655	0-05	0-13	1-11	-0.35
113-00P	3-06s	10.16	0.60	0.0693	0-06	0-14	1-34	-0.30
112-00P	2-35s	10.33*	0.53	0.0702	0-06	0-14	1-63	-0.13
111-00P	2-06s	10.61*	0.46	0.0682	0-06	0-14	2-06	+0.15
110-00P	1-41s	10.57	0.39	0.0662	0-06	0-13	1-41	+0.12
109-00P	1-19s	10.74	0.33	0.0613	0-05	0-13	1-19	+0.28
108-00P	1-02s	11.01	0.27	0.0550	0-05	0-12	1-02	+0.56
107-00P	0-52s	11.27	0.22	0.0483	0-05	0-11	0-52	+0.81
106-00P	0-41s	11.57	0.18	0.0416	0-04	0-10	0-41	+1.12
105-00P	0-34s	12.08	0.15	0.0353	0-04	0-09	0-34	+1.63
104-00P	0-27s	12.43	0.12	0.0298	0-03	0-07	0-27	+1.97
103-00P	0-20s	12.52	0.09	0.0246	0-03	0-06	0-20	+2.07
102-00P	0-16s	12.92	0.08	0.0203	0-03	0-05	0-16	+2.46
101-00P	0-13s	13.35	0.06	0.0168	0-02	0-05	0-13	+2.90
100-00P	0-10s	13.62	0.05	0.0136	0-02	0-04	0-10	+3.17
99-00P	0-08s	14.01	0.04	0.0111	0-02	0-03	0-08	+3.56
98-00P	0-06s	14.21	0.03	0.0088	0-01	0-03	0-06	+3.76
97-00P	0-04s	14.16	0.02	0.0065	0-01	0-02	0-04	+3.71
96-00P	0-03s	14.45	0.02	0.0051	0-01	0-02	0-03	+4.00
95-00P	0-02s	14.45	0.01	0.0037	0-01	0-01	0-02	+4.00
94-00P	0-01s	14.06	0.01	0.0023	0-00	0-01	0-01	+3.61
93-00P	0-01s	14.84	0.01	0.0021	0-00	0-01	0-01	+4.39
92-00P	0-01s	15.63	0.01	0.0019	0-00	0-01	0-01	+5.17
91-00P	0-01s	16.41	0.01	0.0017	0-00	0-01	0-01	+5.95
90-00P	0-01s	17.19	0.01	0.0015	0-00	0-01	0-01	+6.73
88-00P	0-01s	18.75	0.00	0.0013	0-00	0-01	0-01	+8.30
86-00P	0-01s	20.51	0.00	0.0011	0-00	0-01	0-01	+10.05
84-00P	0-01s	22.27	0.00	0.0010	0-00	0-00	0-01	+11.81
80-00P	0-01s	25.78	0.00	0.0008	0-00	0-00	0-01	+15.33
78-00P	0-01s	27.34	0.00	0.0007	0-00	0-00	0-01	+16.89

Directional Option Trading

To learn directional trading, you should take a look at a new user friendly software that provides you with reversal points in the markets. Click below to find out more:

Price & Time Secrets

When trading options, there might be times when you feel strongly about trading the direction of the market. You can sell a put option if you think the

market will go higher and cover that put with a put in a closer month. This will protect the sold option in case of a big move.

If I believe the market is going to go higher, I could put on a credit spread. Many traders would put on a spread in which they sell a Dec. out of the money call and then buy one Dec. call even further out of the money. If the price moves lower, they will profit from the time value disappearing. The sold option has more to lose. If the market stays the same or even moves a little higher, they can still profit. As long as the market does not go past the strike of the sold option. The loss will be the difference between the sold and purchased options

strike minus the credit received. This is a good trade. The problem is the potential loss.

What I do is use the price per day method. If I believe the market will go higher, I can sell an out of the money put in a far month and buy an out of the money put in a closer month for protection. Now if there is a big move lower, I can actually profit because the time value of both options will lose more and more when they are in the money. The downside is that I have to watch the front month options expiration. I don't want to be left with only a sold option. I will exit the trade when the front month expires. The worst case is if the underlying futures slowly moves

higher. I want a big move lower, a big move higher, or I want the market to stay steady so the sold option will lose more per day.

Below is an example with quotes and charts of 10 Year Note options. If I feel that the market will go higher, I could sell a March 10 Year Notes 106 put option. I can cover (protect) the option with a Dec. 10 Year Notes 106 put option.

DECEMBER 05 10-YEAR T-NOTE - CBOT OPTIONS

10/28/05 days to exp: 28 int. rate: 3.91% calc. imp vol of *: 4.75%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
TY205	108-13							
1230-0C	0-01s	18.75	0.01	0.0039	0-01	0-00	0-01	+14.00
1220-0C	0-01s	17.77	0.01	0.0045	0-01	0-01	0-01	+13.02
1210-0C	0-01s	16.80	0.01	0.0052	0-01	0-01	0-01	+12.05
1200-0C	0-01s	15.63	0.01	0.0057	0-01	0-01	0-01	+10.88
1190-0C	0-01s	14.45	0.01	0.0064	0-01	0-01	0-01	+9.70
1180-0C	0-01s	13.28	0.01	0.0074	0-01	0-01	0-01	+8.53
1170-0C	0-01s	12.11	0.01	0.0086	0-01	0-01	0-01	+7.36
1160-0C	0-01s	10.94	0.01	0.0104	0-01	0-01	0-01	+6.19
1150-0C	0-01s	9.77	0.02	0.0130	0-01	0-01	0-01	+5.02
1140-0C	0-01s	8.50	0.02	0.0165	0-01	0-01	0-01	+3.75
1130-0C	0-01s	7.23	0.02	0.0221	0-01	0-01	0-01	+2.48
1120-0C	0-01s	5.86	0.02	0.0310	0-01	0-01	0-01	+1.11
1110-0C	0-01s	4.49	0.03	0.0501	0-01	0-02	0-01	-0.26
1100-0C	0-06s	4.69	0.13	0.1532	0-02	0-05	0-06	-0.06
1090-0C	0-20s	4.61*	0.34	0.2639	0-04	0-07	0-20	-0.14
1080-0C	0-52s	4.85*	0.61	0.2615	0-05	0-07	0-25	+0.10
1070-0C	1-36s	5.13	0.82	0.1666	0-03	0-05	0-09	+0.38
1060-0C	2-30s	5.62	0.93	0.0812	0-02	0-03	0-03	+0.87
1000-0C	8-27s	12.50	0.99	0.0067	0-00	0-00	0-00	+7.75
1170-0P	8-37s	12.50	0.98	0.0098	0-00	0-00	0-00	+7.75
1140-0P	5-37s	6.25	1.00	0.0033	0-00	0-00	0-00	+1.50
1130-0P	4-37s	6.25	0.99	0.0125	0-00	0-00	0-00	+1.50
1120-0P	3-37s	3.13	1.00	0.0004	0-00	0-00	0-00	-1.62
1110-0P	2-38s	4.83	0.96	0.0594	0-01	0-02	0-01	+0.08
1100-0P	1-43s	4.74	0.86	0.1536	0-02	0-05	0-06	-0.01
1090-0P	0-57s	4.64*	0.66	0.2628	0-04	0-07	0-20	-0.11
1080-0P	0-25s	4.83*	0.38	0.2621	0-05	0-07	0-25	+0.08
1070-0P	0-09s	5.08	0.17	0.1668	0-03	0-05	0-09	+0.33
1060-0P	0-03s	5.42	0.07	0.0779	0-01	0-03	0-03	+0.67
1050-0P	0-01s	5.86	0.02	0.0316	0-01	0-01	0-01	+1.11
1040-0P	0-01s	7.32	0.02	0.0215	0-01	0-01	0-01	+2.57
1030-0P	0-01s	8.79	0.02	0.0159	0-01	0-01	0-01	+4.04
1020-0P	0-01s	10.16	0.01	0.0120	0-01	0-01	0-01	+5.41
1010-0P	0-01s	11.52	0.01	0.0094	0-01	0-01	0-01	+6.77
1000-0P	0-01s	12.89	0.01	0.0076	0-01	0-01	0-01	+8.14
990-00P	0-01s	14.45	0.01	0.0066	0-01	0-01	0-01	+9.70
980-00P	0-01s	15.63	0.01	0.0053	0-01	0-01	0-01	+10.88
880-00P	0-01s	30.08	0.01	0.0017	0-01	0-00	0-01	+25.33

MARCH 06 10-YEAR T-NOTE - CBOT OPTIONS

10/28/05 days to exp: 119 int. rate: 3.91% calc. imp vol of *: 5.24%

strike	last	imp vol	delta	gamma	theta-7	vega	prem	iv-skew
TYH06	108-07							
1210-0C	0-01s	8.20	0.01	0.0048	0-00	0-01	0-01	+2.96
1200-0C	0-01s	7.71	0.01	0.0056	0-00	0-01	0-01	+2.47
1190-0C	0-01s	7.13	0.01	0.0062	0-00	0-02	0-01	+1.89
1180-0C	0-01s	6.64	0.01	0.0074	0-00	0-02	0-01	+1.40
1170-0C	0-01s	6.05	0.01	0.0086	0-00	0-02	0-01	+0.81
1160-0C	0-01s	5.47	0.01	0.0102	0-00	0-02	0-01	+0.23
1150-0C	0-02s	5.42	0.03	0.0176	0-00	0-03	0-02	+0.18
1140-0C	0-03s	5.08	0.04	0.0257	0-00	0-04	0-03	-0.16
1130-0C	0-06s	5.08	0.07	0.0422	0-01	0-06	0-06	-0.16
1120-0C	0-11s	4.99	0.12	0.0629	0-01	0-09	0-11	-0.25
1110-0C	0-20s	4.98	0.19	0.0870	0-02	0-11	0-20	-0.26
1100-0C	0-35s	5.02	0.29	0.1089	0-02	0-14	0-35	-0.22
1090-0C	0-59s	5.20*	0.40	0.1195	0-02	0-15	0-59	-0.04
1080-0C	1-25s	5.26*	0.53	0.1207	0-02	0-16	1-11	+0.02
1070-0C	2-00s	5.42	0.64	0.1094	0-02	0-15	0-50	+0.18
1120-0P	3-60s	5.25	0.86	0.0641	0-01	0-09	0-10	+0.01
1110-0P	3-05s	5.09	0.79	0.0866	0-01	0-11	0-19	-0.15
1100-0P	2-21s	5.13	0.70	0.1073	0-02	0-14	0-35	-0.11
1090-0P	1-44s	5.18*	0.58	0.1200	0-02	0-15	0-58	-0.06
1080-0P	1-11s	5.25*	0.46	0.1210	0-02	0-16	1-11	+0.01
1070-0P	0-50s	5.35	0.35	0.1107	0-02	0-15	0-50	+0.11
1060-0P	0-33s	5.54	0.25	0.0919	0-02	0-13	0-33	+0.30
1050-0P	0-21s	5.71	0.17	0.0716	0-02	0-11	0-21	+0.47
1040-0P	0-14s	6.01	0.12	0.0531	0-01	0-09	0-14	+0.77
1030-0P	0-09s	6.25	0.08	0.0381	0-01	0-07	0-09	+1.01
1020-0P	0-06s	6.54	0.05	0.0270	0-01	0-05	0-06	+1.30
1010-0P	0-04s	6.84	0.04	0.0189	0-01	0-04	0-04	+1.60
1000-0P	0-02s	6.84	0.02	0.0116	0-00	0-03	0-02	+1.60
980-00P	0-01s	7.52	0.01	0.0056	0-00	0-01	0-01	+2.28

10-YEAR T-NOTE - CBOT
DECEMBER 2005
AS OF:10/28/05
EACH GRID = 1-00
VALUE = $1000
9 DAY MOVING AVERAGE
18 DAY MOVING AVERAGE
40 DAY MOVING AVERAGE
EXP 12/20/05
32NDS
116
114
112
110
108
106
104
14 21 28 4 11 18 25 2 9 16 23 30 6 13 20 27 4 11 18 25 1 8 15 22 29 5 12 19 26 3 10 17 24 31 7
MAR-05
APR
MAY
JUN
JUL
AUG
SEP
OCT
VOL & O.I.
400000
200000

10-YEAR T-NOTE - CBOT
MARCH 2006
AS OF:10/28/05
EACH GRID = 0-16
VALUE = $500
9 DAY MOVING AVERAGE
18 DAY MOVING AVERAGE
40 DAY MOVING AVERAGE
EXP 03/22/06
32NDS
113
112
111
110
109
108
107
14 21 28 4 11 18 25 2 9 16 23 30 6 13 20 27 4 11 18 25 1 8 15 22 29 5 12 19 26 3 10 17 24 31 7
MAR-05
APR
MAY
JUN
JUL
AUG
SEP
OCT
VOL & O.I.
400000
200000

Ratio Backspreads

Another delta neutral trade is a ratio back spread. An example of this trade would be to sell an option that is at the money and buy a greater number of out of the money options. You might sell one call option at the money (delta-50) and buy 2 call options out of the money (delta +25 each). You would be delta neutral. You would want to put this on for a credit or at even. You can also put it on for a debit but then you would care a little about market direction.

If you put it on for a credit or even money and the market was lower at

expiration of the options, you would break even or earn a small credit. If you put it on for a debit, you would lose the debit amount if the market was lower at expiration of the options. In either case, if the market went sharply higher, you have a chance for unlimited profit, because you have purchased more options than you sold.

Most traders teach that ratio back spreads should be done in the far months only. This is because you have more time to be correct with a big move. The problem that I have found is that you are giving up too much for the time advantage. The options you buy out of the money are not priced at an advantage compared to the ones at the money.

You can also see that in order to have a lot of time left in the trade, the difference in strike prices between the option you sell and the options you buy is too much. It will take a bigger move before you have unlimited profit potential.

If you are expecting a big move, think differently than the norm and start to look at options that have 20 - 40 days left. The options you buy compared to the options you sell, should be priced better. Everything is in relation to something else.

I go over this more in my main options course. So the next time you hear someone recommending the same old ratio back spreads, take a look at the different months to see where the real

advantage is.

Final Word

As you can see, you can trade options to profit from time decay or trade them to profit from a big move in the underlying futures. There is not one perfect trade for every situation. At least I do not know of it. What I do know is that you need to have an advantage in the market.

In my course, I go over these trades in more detail. I have recently added video to the options package. Basic, Intermediate and Advanced techniques are covered in the videos. The videos are in addition to the main Option Secrets book, Q&A book, Supplements,

Audio files, Software and a one year subscription to my Newsletter. To learn more about these techniques and how to trade futures options, please click below:

Futures Options Secrets

If you are interested at all in directional trading, then you should take a look at the Price and Time software mentioned previously. All you need to do is enter the prices and dates from previous highs and lows and the software will give you potential turning points in the markets. It is very simple. If I were asked “what are the best technical analysis techniques”, I would say they are Fibonacci and Gann. Click below to learn how to get this

software that will help you easily spot potential turning points. You can also sign up for a Free 7 day e-mail course.

Price & Time Secrets

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